

These materials require your immediate attention. They require shareholders to make important decisions. If you are in doubt as to how to make your decision, you should immediately contact your professional advisors.

**COMBINATION INVOLVING  
KINROSS GOLD CORPORATION  
TVX GOLD INC.**

**- AND -**

**ECHO BAY MINES LTD.**

**MANAGEMENT  
INFORMATION CIRCULAR  
SUPPLEMENT**

**ACCOMPANYING THE NOTICE OF  
SPECIAL MEETING AND  
MANAGEMENT INFORMATION CIRCULAR FOR  
THE SHAREHOLDERS OF EACH OF  
KINROSS GOLD CORPORATION, TVX GOLD INC.  
AND ECHO BAY MINES LTD.**

**December 20, 2002**

## 20. SUBSEQUENT EVENTS

On February 13, 2002, the Company entered into an agreement with Newmont Mining Corporation providing for the conveyance of the McCoy/Cove mine and facilities in exchange for \$6.0 million and the assumption of all reclamation obligations at McCoy/Cove. The agreement is subject to the completion of due diligence by Newmont on or before July 31, 2002.

On June 9, 2002, the Company entered into a new asset purchase agreement, amended as of November 19, 2002, with an affiliate of Newmont Mining Corporation (Newmont) providing for the conveyance of the McCoy/Cove mine and facilities. The closing of the transaction is subject to, among other conditions, the completion of the combination of Kinross Gold Corporation, TVX Gold Inc. and the Company, as well as the purchase of Newmont Mining Corporation's 49% interest in the TVX Newmont Americas joint venture. In consideration for the purchase of such assets, the Newmont affiliate has agreed to assume all liabilities and obligations relating to the reclamation and remediation required for the McCoy/Cove complex. The new agreement does not result in any cash payment to the Company and is intended to replace the agreement dated February 13, 2002.

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest. The new principal holders of common shares and their respective ownership positions in the Company are Newmont Mining Corporation of Canada Limited (48.8%) and Kinross Gold Corporation (11.4%). As a result of eliminating the capital securities, the Company will record in the second quarter an increase to common shares of \$303.7 million, based on the market value of common shares at the date of issue. The market value of the common shares issued exceeded the book value of the capital securities (note 7) by \$134.8 million. This difference along with share issue costs of \$3.0 million will be recorded proportionately between interest expense (\$5.5 million) and deficit (\$132.3 million) in the second quarter of 2002 based on the debt and equity classifications of the capital securities. Under U.S. GAAP, the entire loss of \$137.8 million would be recorded as an extraordinary item.

On May 17 and 24, 2002 the Company sold a total of 39,100,000 units, each unit consisting of one common share and one common share purchase warrant for total gross proceeds of \$27.4 million. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.90 per share at any time on or prior to November 14, 2003.

On May 28, 2002, the \$17 million revolving bank debt was repaid.

held an aggregate of 1,311,500 vested and 139,375 unvested stock options issued by Echo Bay. In particular, as of November 30, 2002:

- in the case of Kinross, Messrs. Buchan, Caldwell, Danni, Ditto, Hill, Ivany, McCreary, Penny, Schoening and Stewart and Ms. Riley held outstanding options with respect to 2,950,000, 630,000, 120,000, 1,360,000, 450,000, 810,000, 425,000, 480,000, 410,000, 100,000 and 80,000 Kinross common shares (on a pre-consolidation basis), respectively, of which stock options with respect to 2,816,666, 590,000, 68,333, 1,276,667, 415,000, 770,000, 390,000, 445,000, 375,000, 100,000 and 70,000 Kinross common shares were vested and exercisable as of such date, respectively, and stock options with respect to 133,334, 40,000, 51,667, 83,333, 35,000, 40,000, 35,000, 35,000, 35,000, 100,000 and 10,000 were unvested as of such date, respectively.
- in the case of TVX, Messrs. Harvey, Williams, Laing, Whittall, Raisbeck and Smith held outstanding stock options with respect to 133,333, 70,550, 81,350, 38,500, 38,067 and 24,133 TVX common shares, respectively, of which stock options with respect to 0, 3,883, 29,683, 167, 1,400 and 800 TVX common shares were vested and exercisable as of such date, respectively, and stock options with respect to 133,333, 66,667, 51,667, 38,333, 36,667 and 23,333 TVX common shares were unvested as of such date, respectively; and
- in the case of Echo Bay, Messrs. Leclerc, McCrank, Yip and Ottewell and Ms. Brodrick held outstanding stock options with respect to 890,110; 159,203; 146,377; 25,252; and 119,133 Echo Bay common shares, respectively, of which stock options with respect to 815,110; 139,203; 126,377; 20,877; and 99,113 Echo Bay common shares were vested and exercisable as of such date, respectively, and stock options with respect to 75,000; 20,000; 20,000; 4,375 and 20,000 Echo Bay common shares were unvested as of such date, respectively.

Upon completion of the combination, all unvested and unexercisable Kinross stock options, TVX stock options and Echo Bay stock options will vest and become exercisable either pursuant to the terms of the plan under which they were issued or the terms of such options themselves. Based on the number of Kinross common shares, TVX common shares and Echo Bay common shares subject to options and held by directors and executive officers of TVX and Echo Bay as of November 30, 2002, the directors and executive officers of Kinross, TVX and Echo Bay will hold an aggregate of 12,982,703 options to purchase Kinross common shares following completion of the combination (or 4,327,568 options to purchase Kinross common shares if the Kinross one for three share consolidation is effected).

The terms of all outstanding stock options granted by TVX and Echo Bay will be or have been amended to provide that each holder of an option to acquire TVX common shares or Echo Bay common shares shall be entitled to acquire, on substantially identical terms and conditions to those applicable under such stock option and for the same aggregate consideration, the aggregate number of Kinross common shares that the holder of the option would have been entitled to receive as a result of the combination if the holder of the option had been the registered holder of the number of TVX common shares or Echo Bay common shares which the holder was entitled to purchase on exercise of the option.

#### *Maintenance of Insurance*

Kinross has covenanted in the combination agreement to maintain directors' and officers' liability insurance covering the individuals presently covered under TVX's and Echo Bay's existing insurance for a period of six years following completion of the combination.

#### *Election of Directors*

Kinross has covenanted in the combination agreement that it will, at the Kinross special meeting, ask the holders of Kinross common shares to elect four additional, agreed-upon individuals, being Messrs. Harry S. Campbell Q.C., David Harquail, Robert L. Leclerc and George F. Michals, to the board of directors of Kinross.

The board of directors of TVX was aware of the interests described above, with respect to TVX's directors and executive officers, in approving the arrangement. The board of directors of Echo Bay was aware of the interests described above, with respect to Echo Bay's directors and executive officers, in approving the arrangement.

## **TVX**

### ***Employment Agreements/Severance***

TVX has entered into employment agreements with Mr. Sean Harvey, President and Chief Executive Officer, Mr. Melvyn Williams, Chief Financial Officer, Mr. Gregory Laing, General Counsel, Vice President and Corporate Secretary, Mr. Robert Whittall, Vice President, Finance, Mr. John Raisbeck, Chairman and Chief Executive Officer of TVX Hellas, and Mr. William Smith, Finance and Administration Manager of TVX Hellas.

Following the combination, Mr. Harvey may, within 90 days, elect to terminate his employment agreement. If he so elects or if he is terminated without cause, he will receive severance benefits equal to two times his current annual base salary. Based on Mr. Harvey's current annual base salary, Mr. Harvey would be entitled in either circumstance to a lump sum cash payment of approximately \$900,000.

Upon termination of the employment of Mr. Williams or Mr. Laing following a change of control, each of Mr. Williams and Mr. Laing will be entitled to a severance payment equal to two times his base salary. In the event that Mr. Williams or Mr. Laing experience a termination from TVX following the effective date of the combination, and calculated based on Mr. Williams' and Mr. Laing's respective current annual base salary, Mr. Williams and Mr. Laing will be entitled to a lump sum cash payment of approximately \$370,000 and \$300,000, respectively. In the event the employment of Messrs. Whittall, Raisbeck or Smith is terminated following a change of control, Mr. Whittall is entitled to a severance payment equal to six months base salary, Mr. Raisbeck is entitled to a severance payment equal to 18 months base salary and Mr. Smith is entitled to a severance payment equal to 12 months base salary. Assuming Mr. Whittall, Mr. Raisbeck or Mr. Smith experience a termination from TVX following the effective date of the combination, and calculated based on Mr. Whittall's, Mr. Raisbeck's and Mr. Smith's respective current annual base salary, Mr. Whittall, Mr. Raisbeck and Mr. Smith will be entitled to a lump sum cash payment of approximately Cdn.\$87,500, \$262,500 and \$130,000, respectively.

In addition, the Compensation Committee of the Board of Directors of TVX has approved an aggregate bonus of Cdn.\$600,000, payable upon completion of the arrangement to Messrs. Harvey, Williams, Laing and Whittall, pro rata on their salaries. Based on their current salaries, Messrs. Harvey, Williams, Laing and Whittall will be entitled to a bonus of approximately Cdn.\$300,000, Cdn.\$123,333, Cdn.\$100,000 and Cdn.\$76,667, respectively.

Completion of the arrangement will constitute a change of control within the meaning of each of the above-mentioned TVX employment agreements. TVX expects that it will be required to make the payments described above as a consequence of the combination.

## **Echo Bay**

### ***Employment Agreements/Severance***

Echo Bay has entered into employment agreements with Mr. Robert Leclerc, Chairman and Chief Executive Officer, Ms. Lois-Ann Brodrick, Vice President and Secretary, Mr. Jerry McCrank, Vice President, Operations, Mr. Tom Yip, Vice President, Finance and Chief Financial Officer, and Mr. David Ottewell, Controller.

Mr. Leclerc's employment agreement is for an indefinite term and provides for certain lump sum payments if Echo Bay terminates Mr. Leclerc's employment on less than two years' written notice or demotes him and he voluntarily resigns. If a change of control of Echo Bay is followed by a termination of Mr. Leclerc's employment under specified circumstances (as described below), Mr. Leclerc will be paid a cash payment equal to three times the total of his current annual salary in effect as of the time of the change of control plus bonus under the executive cash incentive plan and will receive two years of continued health coverage. Assuming Mr. Leclerc experienced a termination or resigned from Echo Bay under specified circumstances (as described below) following the effective date of the combination, and calculated based on Mr. Leclerc's current annual base salary and bonus under the executive cash incentive plan in effect for 2002, Mr. Leclerc would be entitled to a lump sum cash payment of approximately \$1,950,000. If those payments and any other benefits provided to Mr. Leclerc would be subject to any excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax, then Mr. Leclerc will be entitled to receive an additional payment in an amount that will fund the payment of any excise tax on the total payments and benefits received by Mr. Leclerc following a change of control as well as all income taxes imposed on the excise tax restoration

payment, any excise tax imposed on the excise tax restoration payment and any interest or penalties imposed with respect to taxes on the excise tax restoration payment or any excise tax. The specified circumstances include:

- Echo Bay's termination of Mr. Leclerc's employment within one year of a change of control; or
- a voluntary resignation by Mr. Leclerc for "good reason" within one year of a change of control. The expression "good reason" is defined to include any one of four acts of employer constructive dismissal:
  - the assignment of lower level status or responsibility;
  - a reduction in base salary;
  - a requirement to relocate; or
  - a change in employee participation in or benefits under Echo Bay's benefit plans; or
- in the final 30 days of the one-year period referred to above, Mr. Leclerc may resign for any reason, or no reason at all, and be entitled to the cash payment and benefits.

Each of the other named executive officers of Echo Bay has entered into an employment agreement for an indefinite term. If a change of control of Echo Bay is followed by termination of the individual's employment under specified circumstances (as described above as applied to the individuals), Ms. Brodrick, Mr. McCrank and Mr. Yip will be paid a cash payment equal to three times the total of his or her annual salary in effect at the time of the change of control plus bonus under the executive cash incentive plan and will receive two years of continued health coverage. Assuming Ms. Brodrick, Mr. McCrank, and Mr. Yip experienced a termination or resigned from Echo Bay under specified circumstances (as described above as applied to the individuals) following the effective date of the combination, and calculated based on Ms. Brodrick's, Mr. McCrank's and Mr. Yip's current annual base salary and bonus under the executive cash incentive plan in effect for 2002, Ms. Brodrick, Mr. McCrank and Mr. Yip would be entitled to a lump sum cash payment of approximately \$1,125,000, \$1,155,000 and \$1,155,000. In all other respects, including with respect to the change of control and excise tax restoration payment provisions, the employment agreements for Ms. Brodrick and Messrs. McCrank and Yip are identical to Mr. Leclerc's agreement. Mr. Ottewell's agreement provides for a lower payout structure than the others, does not afford the right to resign in the final 30 days of the one-year period referred to above and does not contain an obligation of Echo Bay to make an excise tax restoration payment. If a change of control of Echo Bay is followed by termination of Mr. Ottewell's employment under specified circumstances (as described above as applied to Mr. Ottewell, but excluding the right to resign in the final 30 days of the one-year period referred to above), Mr. Ottewell will be paid a cash payment equal to 1.5 times the total of his annual salary in effect at the time of the change of control plus bonus under the executive cash incentive plan. Assuming Mr. Ottewell experienced a termination or resigned from Echo Bay under specified circumstances (as described above as applied to Mr. Ottewell, but excluding the right to resign in the final 30 days of the one-year period referred to above) following the effective date of the combination, and calculated based on Mr. Ottewell's current annual base salary and bonus under the cash incentive plan in effect for 2002, Mr. Ottewell would be entitled to a lump sum cash payment of approximately \$243,700.

Completion of the capital securities exchange on April 3, 2002, whereby Echo Bay issued common shares in exchange for all of its \$100 million aggregate principal amount of 11% junior subordinated debentures due 2027 (as more fully described in Schedule C to this circular under the heading entitled "Recent Developments — Exchange of Capital Securities"), constituted a change of control within the meaning of each of the above-mentioned Echo Bay employment agreements. In addition, completion of the arrangement will also constitute a change of control within the meaning of each of the above-mentioned Echo Bay employment agreements. Pursuant to these employment agreements severance payments are only payable once upon a change of control and Kinross expects that it will be required to make the payments described above as a consequence of the combination.

#### **Kinross, TVX and Echo Bay**

##### ***Vesting of Unvested Options***

As of November 30, 2002, directors and executive officers of Kinross held an aggregate of 7,696,667 vested and 738,333 unvested stock options issued by Kinross, directors and executive officers of TVX held an aggregate of 103,310 vested and 373,125 unvested stock options issued by TVX, and directors and executive officers of Echo Bay

become a PFIC. However, the application of the PFIC provisions of the Code to mining companies is somewhat unclear. Therefore, no assurance can be made regarding the PFIC status of Kinross.

If Kinross were to be a PFIC, then a U.S. Holder would be required to pay an interest charge together with tax calculated at maximum tax rates on certain "excess distributions" (defined to include gain on the sale of stock) unless such U.S. Holder made an election either to include in his or her taxable income certain undistributed amounts of Kinross' income or mark to market his or her Kinross common shares at the end of each taxable year as set forth in Section 1296 of the Code.

**U.S. Holders of TVX common shares and Echo Bay common shares are urged to consult their own tax advisors regarding the potential application of the rules described above to their particular tax situations.**

## **KINROSS AFTER COMPLETION OF THE COMBINATION**

### **General**

After completion of the combination, the business and operations of TVX and Echo Bay will be managed and operated as subsidiaries of Kinross. Kinross expects that the business operations of Kinross, TVX and Echo Bay will be consolidated and the principal executive office of the combined company will be located at Suite 5200, Scotia Plaza, 40 King Street West, Toronto, Ontario, Canada, M5H 3Y2 (telephone number 416-365-5123).

Following the completion of the combination, Kinross' annual gold production is expected to be approximately two million ounces at total cash costs of less than \$200 per ounce. This production rate will be supported by proven and probable reserves containing 17.6 million ounces of gold and 52.6 million ounces of silver. Although global in reach, Kinross will have approximately 65% of its annual production and approximately 50% of its reserves based in the United States and Canada. Kinross will be the seventh largest primary gold producer in the world and the only senior North American based primary gold producer with less than 5% of its reserves hedged. Kinross will operate and maintain joint venture interests in 13 gold mines and one base metal mine located on five continents, including seven underground mines, five open pit mines and two operations expected to include both open pit and underground mines.

### **Chief Executive Officer**

Mr. Robert M. Buchan, who is currently President and Chief Executive Officer of Kinross, will continue to be President and Chief Executive Officer of Kinross following the effective date of the combination.

### **Directors**

Following completion of the combination, the Kinross board will consist of ten directors as set forth below.

**Robert M. Buchan**, age 54, has been the President and Chief Executive Officer of Kinross since July 2002, prior to which he was Chairman and Chief Executive Officer since May 1993 and has been a director of Kinross since May 31, 1993. Prior to that date he was the Vice Chairman of Dundee Bancorp. Inc., an investment management company. Mr. Buchan is a director of E-Crete Products, Inc., an affiliate of Kinross, and Pacific Rim Mining Corporation. Mr. Buchan resides in Toronto, Ontario.

**John A. Brough**, age 55, has been President of Torwest Inc. since February 1998, prior to which he was Executive Vice President and Chief Financial Officer of iStar Internet Inc. Prior to 1996 Mr. Brough was Senior Vice President and Chief Financial Officer of Markbrough Properties Inc. Mr. Brough has been a director of Kinross since January 1994. Mr. Brough is a director of Torwest Inc. and Windsor Properties Inc. Mr. Brough resides in Vero Beach, Florida.

**Harry S. Campbell, Q.C.**, age 53, is the Managing Partner of the law firm of Burnet, Duckworth & Palmer, LLP, Calgary, Alberta. Mr. Campbell has been a director of TVX since June 2001. Mr. Campbell resides in Calgary, Alberta.

**Arthur H. Ditto**, age 60, has been Vice Chairman of Kinross since April 2002. Prior to that, Mr. Ditto was the President and Chief Operating Officer of Kinross since May 1993. Prior to that date, Mr. Ditto was the President and Chief Executive Officer of Plexus Resources Corporation. Mr. Ditto is also a director of E-Crete Products, Inc., an affiliate of Kinross, and Montana Tech Foundation. Mr. Ditto has been a director of Kinross since May 31, 1993. Mr. Ditto resides in Aurora, Ontario.

**David Harquail**, age 45, has been President and Managing Director of Newmont Capital Limited since May 15, 2002. Prior to that date, Mr. Harquail was the Senior Vice President of Newmont Mining Corporation of Canada Limited (formerly Franco-Nevada Mining Corporation Limited). Mr. Harquail resides in Denver, Colorado.

Echo Bay expensed Aquarius holding costs of \$0.8 million in 2001 and \$0.7 million in 2000. At December 31, 2001, Echo Bay has a net book value of approximately \$43.7 million in acquisition and construction costs related to Aquarius. Further delays in development and construction from continued low gold prices could result in a write-down of all or a portion of these costs. Echo Bay expects to expense approximately \$1.1 million in development holding costs for Aquarius in 2002.

### **Exploration**

In addition to conducting exploration for new gold deposits, Echo Bay explores for extensions of known reserves at its mines and development properties. Echo Bay's exploration program concentrates on those projects believed to represent the most promising near-term prospects. In particular, exploration efforts are focused on projects located where Echo Bay already has, or plans an extensive gold mining infrastructure, principally those prospects in North America.

At Round Mountain, drilling continued at the Gold Hill property located approximately four miles north of the current mining and processing facilities. Results were encouraging and additional drilling will continue in 2002 to delineate the potential.

At Kettle River, drilling continued to define an extension to the northeast of the K-2 deposit. In 2002, work will continue to further delineate and define the resource.

### **Sunnyside**

In 1996, Sunnyside Gold Corporation ("SGC"), an indirect wholly owned subsidiary of Echo Bay, finalized a consent decree with the State of Colorado that set standards for the release of all reclamation and water treatment permits and resolved future enforcement issues regarding groundwater seeps and springs. SGC estimates that it will take at least two more years for all of the conditions of the consent decree agreement to be fulfilled by both parties. SGC has \$3.6 million accrued at December 31, 2001 for future reclamation costs at the Sunnyside mine. SGC's provision for future reclamation costs is reviewed periodically and adjusted, as additional information becomes available.

### **Other**

#### ***Precious Metal Sales and Hedging Activities***

Echo Bay's doré bars are further refined by third parties and the refined gold and silver is sold to banks or precious metal dealers.

Echo Bay's profitability is subject to changes in gold prices, exchange rates, interest rates and certain commodity prices. To reduce the impact of such changes, Echo Bay attempts to lock in the future value of certain of these items through hedging transactions. These transactions are accomplished through the use of derivative financial instruments, the value of which is derived from movements in the underlying prices or rates.

Echo Bay continually monitors its hedging policy in light of forecasted production, operating and capital expenditures, exploration and development requirements and factors affecting volatility of gold prices such as actual and prospective interest rate and gold lease rate performance. The gold-related instruments used in these transactions include forward sales contracts and options. These forward sales contracts obligate Echo Bay to sell gold at a specific price on a future date. Call options give the holder the right, but not the obligation to buy gold on a specific future date at a specific price. These tools reduce the risk associated with gold price declines, but also could limit Echo Bay's participation in increases of gold prices. Echo Bay engages in forward currency-exchange contracts to reduce the impact on the Lupin mine's operating costs caused by fluctuations in the exchange rate of U.S. dollars to Canadian dollars.

Echo Bay assesses the exposure that may result from a hedging transaction prior to entering into the commitment, and only enters into transactions which it believes accurately hedge the underlying risk and could be safely held to maturity. Echo Bay does not engage in the practice of trading derivative securities for profit. Echo Bay regularly reviews its unrealized gains and losses on hedging transactions.

The credit risk exposure related to all hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. To reduce counterparty credit exposure, Echo Bay deals only with large, credit-worthy

## 6. DEFERRED INCOME

	2001	2000
Modification of hedging contracts .....	\$47,042	\$66,471
Premiums received on gold and silver hedging contracts .....	876	11,641
	47,918	78,112
Less current portion .....	876	3,964
	<u>\$47,042</u>	<u>\$74,148</u>

### *Modification of hedging contracts*

Gains on the early termination or other restructuring of gold, silver and foreign currency hedging contracts are deferred until the formerly hedged items are recognized in earnings. These deferred gains are expected to be recognized as follows: \$35.6 million in 2002, \$2.5 million in 2003, \$3.9 million in 2004, \$3.7 million in 2005 and \$1.3 million in 2006. Refer to note 4 for a discussion of the deferral of losses on the modification of hedging contracts.

### *Premiums received on gold and silver option contracts*

Premiums received on gold and silver option contracts sold are deferred and recognized in earnings on the option expiration dates. These deferred premiums will be recognized in 2002. Refer to note 4 for a discussion of the deferral of premiums paid on gold and silver hedging contracts.

## 7. CAPITAL SECURITIES

In 1997, the Company issued \$100.0 million of 11% capital securities due in April 2027. The effective interest rate on the capital securities is 11%, or 12% compounded semi-annually during a period of interest deferral.

The Company has the right to defer interest payments on the capital securities for a period not to exceed 10 consecutive semi-annual periods. During a period of interest deferral, interest accrues at a rate of 12% per annum, compounded semi-annually, on the full principal amount and deferred interest. Since April 1998, the Company has exercised its right to defer its interest payments to holders of the capital securities. Interest accrued and deferred to date amounts to \$64.2 million at December 31, 2001 and is payable no later than April 1, 2003 together with any additional compounded or deferred interest up to that date. The Company, at its option, may satisfy its deferred interest obligation by delivering common shares to the indenture trustee for the capital securities. The trustee would sell the Company's shares and remit the proceeds to the holders of the securities in payment of the deferred interest obligation. Deferred interest obligations not settled with proceeds from the sale of shares remain an unsecured liability of the Company. The present value of the capital securities' principal amount, \$6.7 million, has been classified as debt within gold and other financings (note 5). The present value of the future interest payments of \$93.3 million plus deferred accrued interest has been classified within a separate component of shareholders' equity as the Company has the unrestricted ability to settle the future interest payments by issuing its own common shares to the trustee for sale. Interest on the debt portion of the capital securities has been classified as interest expense on the consolidated statement of earnings, and interest on the equity portion of the capital securities has been charged directly to deficit on the consolidated balance sheet. For purposes of per share calculations, interest on the equity portion decreases the earnings attributable to common shareholders. See note 15 for a discussion of differences in treatment of the capital securities under generally accepted accounting principles in the United States.

On March 28, 2002 the Company's common shareholders authorized the issuance of up to an aggregate of 361,561,230 common shares in exchange for the capital securities. See note 20.

## 8. RECLAMATION AND MINE CLOSURE LIABILITIES

	2001	2000
Round Mountain .....	\$13,674	\$10,659
McCoy/Cove .....	17,546	19,284
Lupin .....	9,584	8,280
Kettle River .....	9,119	8,620
Sunnyside .....	3,644	4,703
	53,567	51,546
Less current portion .....	3,841	1,914
	<u>\$49,726</u>	<u>\$49,632</u>

At December 31, 2001, the Company's estimate of future reclamation and mine closure costs is \$62.1 million, which it believes will meet current regulatory requirements. The aggregate obligation accrued to December 31, 2001 was \$53.6 million, including accruals of \$7.4 million in 2001, \$10.6 million in 2000, and \$7.0 million in 1999. The remaining \$8.5 million, including \$6.6 million at Round Mountain and \$1.9 million at Lupin, will be accrued on the unit-of-production method over the remaining life of each mine. Assumptions used to estimate reclamation and mine closure costs are based on the work that is required under currently applicable permits, laws and regulations. These estimates may change based on future changes in operations, cost of reclamation activities and regulatory requirements.



The Corporation wholly owns the following material subsidiaries (with the jurisdiction of incorporation listed in parentheses):

- Echo Bay Inc. (Delaware, United States)
- Echo Bay Finance Corporation (Delaware, United States)
- Echo Bay Exploration Inc. (Delaware, United States)
- Round Mountain Gold Corporation (Delaware, United States)
- Sunnyside Gold Corporation (Delaware, United States)
- Echo Bay Minerals Company (Delaware, United States)
- Echo Bay Resources Inc. (Delaware, United States)
- Echo Bay Management Corporation (Delaware, United States)
- Corp. Air Inc. (Alberta, Canada)

The Corporation also has a total of 16 other subsidiaries which are omitted from the description above as they are not considered material individually or in the aggregate.

The Corporation is governed by the Canada Business Corporations Act. Its executive, registered and records office is located at Suite 1210, 10180 — 101 Street, Edmonton, Alberta, Canada, T5J 3S4.

## **RECENT DEVELOPMENTS**

### **Completion of Financing**

On May 17, 2002, Echo Bay sold a total of 34,000,000 units at a price of \$0.70 per unit for aggregate gross proceeds of \$23,800,000 and granted the underwriters for the offering an over-allotment option to purchase an additional 5,100,000 units. On May 24, 2002, the underwriters exercised the full over-allotment option for further gross proceeds to Echo Bay of \$3,570,000. Each unit consists of one common share and one share purchase warrant. The common shares and the warrants comprising the units separated upon closing and trade separately on the Toronto Stock Exchange and the American Stock Exchange. Each warrant entitles the holder to purchase one common share of Echo Bay at a price of \$0.90 at any time prior to November 14, 2003.

### **Exchange of Capital Securities**

On April 3, 2002, the Corporation issued an aggregate of 361,561,230 common shares, representing approximately 72% of the outstanding common shares after giving effect to such issuance, in exchange for all of its \$100 million aggregate principal amount of 11% junior subordinated debentures due 2027, plus accrued and unpaid interest thereon (the "capital securities").

Following this issuance of common shares, and as at April 3, 2002, the new principal holders of the Corporation's common shares and their respective share ownership positions in the Corporation were Newmont Mining Corporation of Canada Limited ("Newmont Canada") (48.8%) and Kinross Gold Corporation (11.4%). In connection with the completion of the capital securities exchange, three directors of the Corporation resigned from the board of directors. Two of the vacancies created by these resignations were filled by executive officers of Newmont Canada.

### **Sale of McCoy/Cove Complex**

Effective February 13, 2002, Echo Bay Inc., a subsidiary of Echo Bay, entered into an agreement with Newmont providing for the conveyance to Newmont Mining Corporation ("Newmont") of the entire McCoy/Cove complex in Nevada. The agreement was subject to the completion of due diligence by Newmont by July 31, 2002 and called for a payment to the seller of \$6 million and the assumption by Newmont of all reclamation and closure obligations at McCoy/Cove.

On June 9, 2002, Echo Bay Exploration Inc. and Echo Bay Minerals Company, subsidiaries of Echo Bay, entered into a new McCoy/Cove asset purchase agreement, amended as of November 19, 2002, with Newmont USA Limited, a subsidiary of Newmont, providing for the conveyance of the McCoy/Cove complex. The closing of the transaction is subject to, among other conditions, the completion of the combination. In consideration of the purchase of such assets, Newmont USA has agreed to assume all liabilities and obligations relating to the reclamation or remediation required for the McCoy/Cove complex. The agreement replaces the letter agreement dated February 13, 2002 and results in no

**Failure to secure the necessary letters of credit or surety bonds or to provide the necessary corporate guarantees to secure reclamation obligations, could result in violation of Echo Bay's operating permits and impact Echo Bay's ability to continue operating at specific locations.**

Certain regulatory agencies may require security to be provided for some or all of the cost to restore land disturbed during operations. Echo Bay has typically provided letters of credit, surety bonds and corporate guarantees as security for these future reclamation costs. The market place for third party security instruments is, however, very limited to the mining industry and to Echo Bay in particular. If Echo Bay is unable to secure the necessary forms of security, its ability to continue operations at specific locations could be jeopardized. Even where Echo Bay currently has security in place for reclamation costs, it may be required to provide additional, or alternative, financial instruments. For example, early in 2001, regulators in Nevada called upon two of Echo Bay's subsidiaries to provide other forms of security to replace corporate guarantees that had been given in respect of the Round Mountain and McCoy/Cove operations totaling approximately \$33 million. Echo Bay disagrees with the regulators' position and believes that the subsidiaries qualify under the criteria set out for corporate guarantees and will oppose the regulatory position. If Echo Bay is required to provide additional or alternative forms of security, and is unable to do so at acceptable costs or at all, it may be prohibited from commencing or continuing operations and its financial condition and prospects would be adversely affected. See "Description of Business and Properties — Other — Governmental and Environmental Regulation" in this Schedule "C".

**Reserve estimates are inherently uncertain. Any material inaccuracies in Echo Bay's reserve estimates or assumptions underlying reserve estimates could cause reserves to be overstated.**

The estimation of reserves and resources is inherently uncertain and involves subjective judgments about many relevant factors. The accuracy of any such estimate is a function of:

- the quantity and quality of available drilling data;
- engineering and geological interpretation;
- testing and production experience;
- gold prices;
- operating and capital costs;
- short-term operating factors such as the need for sequential development of ore bodies; and
- the processing of new or different ore grades and ore types.

The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. If they are not, Echo Bay may discontinue the development of a project or mining at one or more of its properties.

Reserve calculations and life-of-mine plans using significantly lower prices (see gold price affect on Echo Bay's production, profitability, reserves and liquidity) could result in material write-downs of its investment in mining properties and increased amortization, reclamation and closure charges.

**Echo Bay's activities are subject to complex laws and regulations that can adversely affect operating and development costs, the timing of operations and/or the ability to operate.**

Echo Bay's mining operations and exploration and development activities are subject to extensive Canadian, U.S. and other foreign federal, state, provincial, territorial and local laws and regulations governing exploration, development, production, exports, taxes, labor standards, waste disposal, protection of the environment, reclamation, historic and cultural resources preservation, mine safety and occupational health, toxic substances, reporting and other matters. The costs of discovering, evaluating, planning, designing, developing, constructing, operating and closing Echo Bay's mines and other facilities in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that Echo Bay would not proceed with the development or operation of a mine. Future regulatory developments, such as more stringent environmental protection laws, regulations and enforcement policies thereunder, and claims for damages to property and persons resulting from Echo Bay's operations, could result in substantial costs and liabilities, reduced profits and a deterioration of its financial condition.

Echo Bay is required to obtain governmental permits to develop its reserves and for expansion or advanced exploration activities at its operating properties and its exploration properties. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous Canadian, U.S. or foreign federal, state, provincial, territorial and local agencies. Echo Bay will be required to obtain additional permits to allow it to construct and operate properties currently under development. The duration and success of each permitting effort are contingent upon many variables not within Echo Bay's control. If Echo Bay is unable to obtain the necessary approvals, it will not be able to commence production at the applicable mine. See "Description of Business and Properties — Other — Governmental and Environmental Regulation" in this Schedule "C".

In addition, there is a risk that private individuals or entities may assert that Echo Bay's activities have caused damage to their interests. For example, in 2000, a subsidiary of Echo Bay and numerous other parties were served with a complaint from the Colorado School of Mines for environmental cleanup costs at a federal Comprehensive Environmental Response, Compensation and Liability Act site. Echo Bay's share of the settlement was approximately \$89,500.

**Echo Bay's mining operations are subject to significant risks that may not be covered by insurance.**

The business of gold and silver mining is generally subject to a number of risks and hazards, including:

- environmental conditions;
- industrial accidents;
- labour disputes;
- unusual or unexpected geological conditions;
- ground or slope failures, cave-ins;
- changes in the regulatory environment; and
- natural phenomena such as inclement weather conditions, floods, blizzards and earthquakes.

Such occurrences could result in:

- damage to mineral properties or production facilities;
- personal injury or death;
- environmental damage to Echo Bay's properties or the properties of others;
- delays in mining;
- monetary losses and possible legal liability.

"Description of Business and Properties — Other — Mining Risks and Insurance" in this Schedule "C".

**Certain of Echo Bay's United States property rights consist of unpatented lode mining claims.**

Unpatented mining claims and millsites are generally considered to be subject to greater title risk than other real property interests. The validity of an unpatented mining claim or millsite, in terms of its location and maintenance, and the uses thereof, is dependent on strict compliance with a complex body of federal and state statutory and decisional law, administrative interpretation of that law and, for unpatented mining claims, the existence of a discovery of valuable minerals. In addition, there are few public records that definitively control the issues of validity and ownership of unpatented mining claims or millsites. There can be no assurance that title to any of its unpatented mining claims or millsites may not be defective.

**Repercussions from terrorist acts committed in the United States could harm business operations and adversely impact the Corporation's ability to meet its expectations and other forward looking statements contained herein.**

The terrorist attacks in the United States on September 11, 2001 caused instability in the world's markets. There can be no assurance that these terrorist attacks, or the responses to them, will not lead to further acts of terrorism in the United States, Canada or elsewhere, which may contribute to economic instability in the United States, Canada and other geographic areas in which Echo Bay is active. Specifically, such instability could adversely affect production or exploration activities.

## LEGAL PROCEEDINGS

The Corporation is currently subject to a number of third party claims which the Corporation believes are routine in, and incidental to, the normal course of its business. In addition, two wholly owned subsidiaries of the Corporation, Echo Bay Exploration Inc. and Echo Bay Management Corporation (together, the "Subsidiaries"), are currently subject to legal proceedings.

In September 1992, Summa Corporation ("Summa") commenced a lawsuit against the Subsidiaries alleging improper deductions in the calculation of royalties payable over several years of production at McCoy/Cove and another mine, which is no longer in operation. The matter was tried in the Nevada State Court in April 1997, with Summa claiming more than \$13 million in damages, and, in September 1997, judgment was rendered for the Subsidiaries. The decision was appealed by Summa to the Supreme Court of Nevada, which in April 2000 reversed the decision of the trial court and remanded the case back to the trial court for "a calculation of the appropriate [royalties] in a manner not inconsistent with this order." The case was decided by a panel comprised of three of the seven Justices of the Supreme Court of Nevada and the Subsidiaries petitioned that panel for a rehearing. The petition was denied by the three member panel on May 15, 2000 and remanded to the lower court for consideration of other defences and arguments put forth by the Subsidiaries. The Subsidiaries filed a petition for a hearing before the full Supreme Court and on December 22, 2000, that Court recalled its previous decision. Both the Subsidiaries and their counsel believe that grounds exist to modify or reverse the decision. The Corporation has \$1.5 million accrued related to this litigation. If the appellate reversal of the trial decision is maintained and the trial court, on remand, were to dismiss all of the Subsidiaries' defences, the royalty calculation at McCoy/Cove would change and additional royalties would be payable. Neither the Corporation, nor counsel to the Subsidiaries, believes it is possible to quantify the precise amount of liability pursuant to a revised royalty calculation.

In November 2001, two former employees of the Corporation brought a claim against the Corporation pursuant to the *Class Proceedings Act* (British Columbia) as a result of the temporary suspension of operations at the Corporation's Lupin mine in the spring of 1998 and the layoff of employees at that time. The Corporation does not know at this time the amount being claimed by the former employees nor whether the claim is appropriate for certification as a class action. On August 12, 2002, the Supreme Court of British Columbia decided it had such jurisdiction. Echo Bay is appealing this decision. No determination has been made by this Court as to whether this action is suitable for certification as a class action and no decision has been rendered with respect to the merits of the action.

While the outcome of any particular claim is not certain, the Corporation believes it has substantive defences and intends to vigorously defend all claims.

# ECHO BAY MINES LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

Tabular dollar amounts in thousands of U.S. dollars, except amounts per share and per ounce or unless otherwise noted

### 1. GENERAL

In the opinion of management, the accompanying unaudited consolidated balance sheets, consolidated statements of operations, consolidated statements of deficit and consolidated statements of cash flow contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly in all material respects the consolidated financial position of Echo Bay Mines Ltd. (the "Company") as of September 30, 2002 and December 31, 2001 and the consolidated results of operations and cash flow for the three and nine months ended September 30, 2002 and 2001. These financial statements do not include all disclosures required by generally accepted accounting principles for annual financial statements. For further information, refer to the financial statements and related footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2001. Except as otherwise noted in this report, the accounting policies described in the annual report have been applied in the preparation of these financial statements.

On June 10, 2002, the Company, Kinross Gold Corporation ("Kinross") and TVX Gold Inc. ("TVX") announced that they had entered into an agreement providing for the proposed combination of the companies. In a concurrent transaction, TVX agreed to acquire from Newmont Mining Corporation ("Newmont") the interest in the TVX Newmont Americas joint venture that it does not already own. The combination of the companies is conditional upon the completion of this purchase.

Shareholders of Echo Bay (other than Kinross) would receive 0.52 of a Kinross common share for each Echo Bay common share. At a Kinross special meeting, the shareholders of Kinross are expected to consider a one-for-three share consolidation which, if approved, would result in an exchange ratio change from 0.52 to 0.1733 of a Kinross common share for each Echo Bay common share. The Kinross share consolidation would not affect the percentage ownership interest of the Echo Bay shareholders in Kinross.

On June 9, 2002, Echo Bay Exploration Inc. and Echo Bay Minerals Company, two subsidiaries of the Company, entered into an asset purchase agreement, amended as of November 19, 2002, with Newmont USA Limited ("Newmont USA"), a subsidiary of Newmont, providing for the conveyance of the McCoy/Cove complex. The agreement replaces a letter agreement dated February 13, 2002 related to the conveyance of the McCoy/Cove complex which called for a payment to the seller of \$6 million and the assumption by Newmont of all reclamation and closure obligations. Under the February 13, 2002 letter agreement, Newmont had no obligation to complete the transaction. Newmont indicated it was willing to proceed with the conveyance of the McCoy/Cove complex only if the Kinross Combination was completed and the cash payment was eliminated. Accordingly, a new agreement was reached expressly containing these two conditions. The closing of the transaction is subject to, among other conditions, the completion of the Kinross Combination. In consideration of the conveyance of such assets, Newmont USA has agreed to assume all liabilities and obligations relating to the reclamation or remediation required for the McCoy/Cove complex. A gain is expected on the conveyance of the McCoy/Cove complex. Pending completion of the transaction, the Company will continue to operate McCoy/Cove for its own account.

In May 2002, the Company sold a total of 39,100,000 units at a price of \$0.70 per unit for aggregate gross proceeds of approximately \$27.4 million. Each unit consisted of one common share and one share purchase warrant. The common shares and the warrants comprising the units separated upon closing and trade separately on the Toronto Stock Exchange and on the American Stock Exchange. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.90 at any time prior to November 14, 2003.

On April 3, 2002 the Company issued 361,561,230 common shares in exchange for the entire capital securities debt obligation of \$100 million in principal amount plus accrued and unpaid interest (notes 7 and 8).

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

### 2. INVENTORIES

	September 30 2002	December 31 2001
Precious metals bullion .....	\$ 7,299	\$12,215
In-process .....	4,907	5,720
Materials and supplies .....	<u>13,660</u>	<u>11,571</u>
	<u>\$25,866</u>	<u>\$29,506</u>